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INSURANCE AGENTS' ASSOCIATION OF ALBERTA

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to the

EXECUTIVE COMMITTEE, ALBERTA GOVERNMENT

Edmonton, Alberta

July 11, 1973

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The Insurance Agents' Association of Alberta was formed 47 years ago and has been incorporated under the Alberta Societies Act for the past 17 years. It is the only organized body of independent general insurance agents in the province.

Membership is voluntary and is open to any resident of Alberta who is licensed by our government to transact business in all classes of insurance (except life) and who represents more than one insurer. There are other requirements for membership but the latter is the one on which we base our "independent" status. In other words, while our member represents several insurance companies, he is employed by none of them. He is therefore able to impartially select the insurance company he believes (by his actual experience in dealing with a number of them) will provide the most practical insurance cover for a particular client's risk at a premium consistent with sound and stable underwriting. In contrast, the "captive" or "exclusive" agent of a single insurance company deprives his potential client of this advantageous choice.

We feel the place of the independent insurance agent in today's society is not fully appreciated. He is actually a professional who deals in protection. His office counsels clients, offering safeguards against every known personal or business risk of financial loss resulting from ownership of property or operation of the laws of liability. He is much more than a salesman, he is a knowledgeable middleman, "buying" insurance protection for his clients from the insurance companies he represents. His aim is

to be certain his clients have adequate protection at all times; when a client's risks change or unexpected hazards develop, the competent agent advises how to meet them through application of the proper type of insurance.

When a loss occurs, the independent agent is a valuable friend, an on-the-spot counsellor and advisor who understands the policy he has personally arranged for his client and since he appreciates the requirements of that particular policy regarding loss adjustment, is able to act on behalf of his client in bringing his claim to a successful conclusion.

The independent agent is an integral part of the life of his community; his business purchases goods and services which contribute to the economic well-being of his community; he is an employer of labor; he is invariably active in public affairs. His business is linked to private ownership and in striving to accumulate property for the future benefit of his children, he opposes trends that curtail legitimate individual freedom of choice and opportunity. In every political constituency of this province there are independent agents--members of this Association--who support the idea of free private enterprise.

The standard of qualification for membership in our Association is known to be higher than that required by an individual who wishes to obtain an agent's license from the government. We have endeavored for many years, to bring about an upgrading of the level of insurance knowledge required by the government of an applicant for a license, but to no avail. Our interest in this matter

was and is to bring about a generally higher level of competence throughout the agency force so that advice and service to the public will be of a high order. In the meantime of course, our Association has organized many educational functions for our members from one day to one week throughout the Province, in order that they provide as competent a service as possible to the public.

On this subject, we made a submission about a year ago to the Legislative Committee studying Professions and Occupations, to which we would respectfully refer you, as it proposed a drastic change in the licensing, qualification, education and control of those engaged in the business of general insurance in this province.

In any discussion of insurance, it must be remembered that the long term interests of the public and the Government are best served by making sure insurance companies charge a fair price for the risk they assume. The Insurance Agents' Association of Alberta subscribes to the principle that insurance rates should not be excessive, not inadequate, and not unfairly discriminatory. Without complete application of this principle, there is a tendency for the public to wonder and question whether or not they are being fairly dealt with in the establishment of their rates; the statistical relation between premiums and losses is distorted; there is a possibility of insolvency overtaking an insurance company. These are not desirable conditions and are preventable by enforcing the three-point principle mentioned.

Insurance legislation in most of North America has one common objective and that is to prevent unfair discrimination

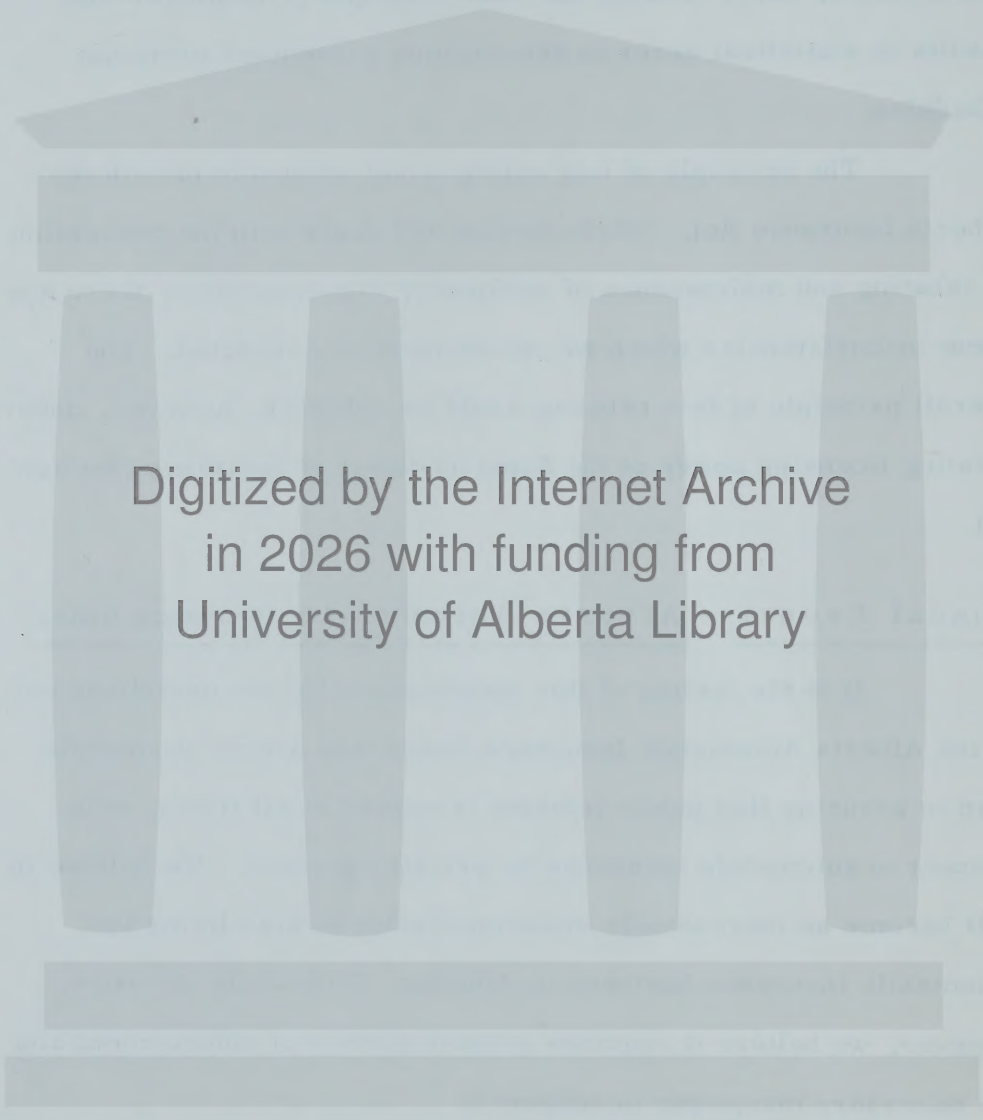
between different elements of the public for any reason not based on risk (such as race, religion, membership in any organization or group), because such discrimination is not only foreign to our democratic ideals, but it violates the very principle of insurance and results in statistical error in determining subsequent premium schedules.

The principle of fair rating is not inconsistent with the Alberta Insurance Act. While Section 493 deals with the prevention of rebating and maintenance of uniformity in commission, there are some inconsistencies which we recommend be corrected. The overall principle of fair rebating could be achieved, however, under existing licensing power of the Superintendent of Insurance (Section 11).

Annual Report - Alberta Automobile Insurance Board

It is the feeling of this Association that the establishment of the Alberta Automobile Insurance Board was a very worthwhile step in assuring that public interest is served at all times, with respect to automobile insurance by private insurers. We believe it will become an increasingly important factor in stabilizing the automobile insurance business in Alberta. To be fully effective, however, we believe it requires greater powers of enforcement and the necessary manpower to support it.

We appreciate the Board's difficulty in coming to any specific conclusions so early in its history, in such a complicated field where the problems are not only of an insurance nature, but political as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well. The Board, however, must be commended for its astuteness in recognizing such problem areas as those stemming from rating classes, territories, underage drivers. The Board also appears to have recognized that the insurance industry will have a difficult time solving a political problem actuarially and may need some legislative help.

In common with the Board we, too, were surprised at the general lack of interest evidenced by the submissions received in response to public notices inviting them and by the small attendance at the advertised public hearing.

Classes and Territories: We believe a review of the number of driver classes and of territories used in rating automobile risks would be beneficial. The proliferation of classes developed by insurers in recent years, while well-intentioned, have had the effect of confusing the public and possibly reducing public confidence in the industry. Drastic simplification of classes seems to us, to be very much in order. Because of the relatively small number of vehicles in Territories 2 and 3, the validity of maintaining both is obscure; it may be more practical to combine them.

Underage Drivers: Because of the nature of private enterprise, the fierceness of competition in automobile insurance approaches, in many respects, perfect competition in that a rate level for specific risks is reached, commensurate for the risk.

The Board's reference to a shift in the source of the administrative expense portion of the premium, although valid, would not result in a significant reduction in premium for the underage driver because they are referring to only a portion of the smallest segment of the premium dollar.

While observing that a small subsidy paid by all other classes would greatly reduce the premium for underage classes, the Board recognized that this could result in some insurers "creaming" so-called preferred classes and avoiding risks from underage drivers because their premiums would then be inadequate to cover their claims. To avoid that particular creaming problem, we suggest a special pool for underage drivers, embraced by all automobile insurers. Under this arrangement such risks would be distributed equitably and losses incurred by the pool shared by all insurers in proportion to the volume of business they write in the more preferred classes. This procedure could be voluntary, but if unsuccessful, made a condition for licensing under the Alberta Insurance Act.

Surcharges: In one section of our submission to the Automobile Insurance Board, we question the use of surcharges. We would like to emphasize our contention now, that if surcharges can be justified for accidents and convictions, they be applied in accordance with a consistent predetermined dollar scale and not on a percentage of premium system.

Renewal Discount: The Board refers to the transferring of automobile business from one insurer to another as a costly

aspect of overhead and that a renewal discount would tend to reduce this. We believe this to be impractical, as any insurer taking over business from another would give the discount anyway--even though it is new business to them--and competition would soon lead to breakdown of the benefit. It is a fact of life that when people do switch where they buy their insurance, it is done for a variety of very personal reasons; if there is a cost for this, it is the price the consumer pays for the right to choose where he buys.

Although not qualified to comment on the rate-making process, we would like to make this observation: it is surprising that the Board was unable (see item 2 under Conclusions) to obtain certain statistical information from insurance companies. We conclude that companies just don't know and in this age of computers and advanced mathematical analyses, this seems unusual. We believe the Board should indicate to insurers exactly what information it requires and how it is to be submitted. The Board should also require insurers to file for approval, every change in their underwriting procedures which would have an effect on eventual premiums. Among other things, this would prevent such practices as adjusting automobile rating groups to produce higher premiums without an actual increase in rates.

We are in agreement with the Board's recommendation that nimimum limits be increased to $50,000 for third party liability coverage. Actually, we question somewhat, whether that is high enough; in today's society, $100,000 may be a more practical figure.

Government Involvement

The I. A. A. A. readily acknowledges there is significant discontent over automobile insurance and pressure is being exerted on both the insurance industry and government, for change. The Automobile Insurance Board recently called a meeting of insurers and asked them to try to develop a new plan of automobile insurance for Alberta which would include a reduction in premiums, especially for the young driver. We, too, feel there is need for an easing of premiums but think it reasonable to ask what our Government is going to "bring to the party." We suggest there are a number of areas of direct Government action which would assist in reducing the frequency of traffic accidents and thus, the cost of automobile insurance. Some of these are:

(i) Driver Education in schools, teaching pupils how to co-exist with the automobile from pedestrian, to cyclist, to passenger, to operator of a vehicle, will have a lasting influence in building a responsible and courteous attitude toward fellow motorists in all traffic situations. We endorse the Resolution adopted unanimously in the Legislature, which advocated rapid extension of driver education to schools throughout the province, and urge the Department of Education and the Department of Highways to join in its implementation.

(ii) Continuing and tighter control of drivers is possible through the Demerit Point System which we believe should be upgraded in severity, and expanded to include awarding

demerit points following any court suspension of driving privilege. We believe the demerit system should expose the individual who breaks the law of motor vehicle operation. At present he is penalized by fine and/or suspension of driving privilege and allowed to return to the traffic stream immediately or in a short time. His driving inadequacy should be recognized and immediate steps taken to rehabilitate and re-educate him in proper driving habits. This can best be done by making it mandatory that, at the direction of a court or Driver Review Board, he attend an accredited Traffic Clinic or similar course.

(iii) The Impaired Driver Project, sponsored by the Attorney General's Department is operating in some parts of the province. We recommend it be extended as quickly as possible throughout the province and attendance be a mandatory requirement for return of driving privilege to anyone convicted of impaired driving. We are proud that our Association has been deeply involved in the promotion and conduct of this project since its inauguration.

(iv) Although Alberta's program was discontinued, motor vehicle inspection is enforced in many parts of the world because of its acknowledged contribution to a decrease in costly traffic accidents. During its short operation in Alberta, many unsound vehicles were voluntarily removed from the road by their owners, rather than face inspection, but upon cancellation of the program these vehicles were

again licensed and returned to the road in their known, unsafe condition. We strongly recommend a rigid vehicle inspection program be introduced throughout the province.

(v) We believe that the first license issued to any operator of a motor vehicle should be probationary for a two-year period, and that any probationary license be automatically suspended for a very significant period of time regardless of the owner's age, if he/she is convicted of a major traffic offence or develops a record of a series of convictions for minor offences.

(vi) When compulsory automobile insurance was introduced in Alberta, the legislation provided that a minimum fine of $250 be levied on anyone convicted of operating a vehicle without the prescribed minimum coverage. The legislation, however, lost its teeth--not only in our view, but in the view of responsible people in all walks of life--when the minimum was removed. It is our firm belief that to be effective, compulsion must carry a significant penalty for non-compliance. We urge that legislation be introduced making a minimum fine of such severity as to be meaningful (our Association favors $250).

It is the belief of the I. A. A. A. that the present high cost of automobile insurance is a reflection of the industry's deteriorating automobile loss record. As accident frequency increases, so does the cost of automobile insurance. But the cost of insurance is secondary; the greater concern is the loss of life and the terrible

injuries suffered by so many due to traffic mishaps--losses which involve suffering that dollars cannot recompense. In an effort to reduce the accident frequency (and at the same time reduce insurance costs) we strongly urge our Government to review all existing legislation relating to motor vehicles, and strengthen this legislation and its enforcement, by placing greater penalties on the incompetent and irresponsible operator as well as the unsafe vehicle.

Conclusion:

Over the years, I. A. A. A. has made many submissions to Government on a variety of matters dealing with insurance. Unfortunately, the lack of response has been discouraging. Now, with a new Government, a new Superintendent of Insurance, and a recently-appointed new Minister, we trust that doors will open to enable us to assist our Government in improving, in a variety of ways, the position of the insuring public. We can state with the utmost conviction that the members of I. A. A. A., being in daily contact with the insurance buyers of Alberta, are in the fortunate position of being better able to speak for the public than any other segment of the insurance industry. We therefore offer full co-operation in any matter relating to any form of insurance (except life) and we invite you to take full advantage of the knowledge and experience of our members.

Areas of concern to government today in the standard of service offered by some insurance agents and some insurance adjusters might largely have been avoided had governments followed

recommendations made by us over the years to upgrade the standards of qualification and licensing in our province. We believe complaints reaching the office of the Superintendent of Insurance concerning our members (who are required, as mentioned earlier, to be much higher qualified than non-members) are few, compared to the number of complaints concerning agents who are not members of our Association.

Had the three-point principle of fair rating been adopted and enforced in, say, the last ten or fifteen years, we believe Albertans would pay equitable premiums for their various risks, and normal facilities for buying insurance would be preserved. Further, when rates are fairly and accurately set, they serve as an indicator of conditions as they exist and can point out to municipal or provincial government the conditions which result in higher insurance rates. We believe insurance companies could have made a forceful case to government in the past, for prevention of traffic accidents, and by the same token, government could have been more cognizant of the conclusions of insurance companies, by the rates they were setting.

Respectfully submitted,

INSURANCE AGENTS ASSOCIATION OF ALBERTA

July 11, 1973